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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 002525

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TAGS: ECON EFIN CH

SUBJECT: CHINA/G-20: FOUR WANTS, ONE DON'T WANT, AND A
DON'T KNOW

Classified By: William Weinstein, reason:1.4 (a) and (b)

¶1. (C) Summary: The Ministry of Foreign Affairs (MFA) is drafting China's G-20 Pittsburgh Summit position paper, under the direct guidance of Vice Foreign Minister He Yafei. VFM He would like the summit communique to contain statements endorsing macroeconomic stimulus plans, calling for North-South economic rebalancing, promoting international financial institution (IFI) reform, and forgoing protectionism. MFA does not want the communique to address climate change financing. The Chinese have not developed a position on peer review. Looking forward, the MFA generally supports the continuation of the G-20 process. End Summary.

¶2. (C) Econoff was asked to meet on August 30 with MFA International Organizations Department Division IV official Chen Zushan regarding the Chinese positions on the upcoming Pittsburgh G-20 Summit.

Communique Should Not be Too Detailed

¶3. (C) Chen said that the MFA is finalizing its G-20 position paper, under the close supervision of Chinese VFM and G-20 Sherpa He Yafei. The drafters are awaiting the U.S. draft.

¶4. (C) Chen noted that the U.S. National Security Council (NSC) and Treasury Department have passed China a large number of overview papers. China has concerns that these papers are too detailed and they should not necessarily form the basis of the communique.

Four Wants...

¶5. (C), Chen conveyed that VFM He would like the following elements included in the G-20 communique:

¶6. (C) Macroeconomics: Chen said that despite positive global economic signs, the communique should still focus on macroeconomic stabilization. This should include endorsing continued monetary and fiscal stimulus. Exit strategies can be discussed, but China stresses the need to be cautious about including this topic in a public communique.

¶7. (C) Development Imbalances: According to Chen, He Yafei believes the root cause of the economic crisis was not "trade, financial, or savings/consumption imbalances," but a "North-South development imbalance." He said that as consumption contracts in the United States, it would need to be replaced by growing consumption in many countries; the world could not rely on Chinese consumers to absorb all of the excess production. (Note: Upon further discussion, it

became clear that Chen didn't understand the economics of the global rebalancing debate, and was reciting points. Other MFA officials in the room were similarly unable to clarify this point. End note.)

¶8. (C) IFI reform: Speaking for "developing countries", Chen said the developing world felt the momentum had shifted away from necessary IFI reform. He stated that China supports what he said was a U.S. proposal for a five percent shift in International Monetary Fund (IMF) quota to developing countries. Chen said that, in addition, the communique should address reform of the World Bank and other Multilateral Development Banks (MDBs). He disagreed with the principle that MDB contributions and voting share be tied; developing countries should have at least half of the voting share regardless of how much they contributed. He also disagreed with the idea that the MDBs should address climate change; climate change can be a consideration in approving projects, but the goal should be poverty alleviation and development. Regarding governance reform, he asked that the communique reiterate that management selection be "open, transparent, and merit based."

¶9. (C) Anti-Protectionism: Chen said the communique should repeat the previous commitment to curb protectionism. It should also reiterate an endorsement of the Doha Round of trade negotiations. China specifically opposes climate-related protectionism, such as carbon tariffs.

...One Don't Want...

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¶10. (C) Climate Change Financing: Chen stated that climate change financing should not be discussed at the G-20. Other mechanisms exist to address this topic, he claimed. Chen said the overview paper that the United States had provided on this topic was "unbalanced."

...And a "Don't Know"

¶11. (C) Peer review: Chen said that this was a new initiative, and China did not have enough information to form a position. He asked for additional details on the proposal, as well as other countries' views.

In Favor of Continuing the G-20

¶11. (C) Chen said China is in favor of continuing the G-20 process. He noted that the agenda addressed in the G-20 communiqus so far would take many years to realize. He offered rebalancing and IFI reform as examples of such long-term objectives. Furthermore, Chen stated that China feels the G-20 is a good size; he claimed alternative groupings like the G-8 5 appear divided along North-South lines.

¶12. (C) Chen said the South Koreans had approached China to gain MFA's support regarding the prospect of the ROK hosting the next G-20 summit. Chen said the MFA had "sent" the South Koreans to the United States to gain American support for the proposal.

Comment: MFA Economics

¶13. (C) MFA IO Department has seized on the G-20 process as an opportunity to become more assertive in international economic negotiations, usually the realm of entities such as China's Ministry of Finance. They appear to want to insert into the debate political objectives such as MFA's need to appear to support and speak for developing countries. In some cases, this has led to some unusual economic conclusions

on their part, such as their insistence that the "Development Imbalance" be addressed in the context of global rebalancing, as well as their proposal to delink MDB contributions and voting share. End comment.

HUNTSMAN